



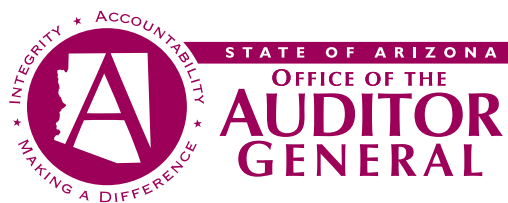
A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

Humboldt Unified School District No. 22

As of April 9, 2003



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

Accounting Services Division Staff

Jerry Strom, Manager and Contact Person
jstrom@auditorgen.state.az.us

Amanda Winn

Copies of the Auditor General's reports are free.
You may request them by contacting us at:

Office of the Auditor General
2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

www.auditorgen.state.az.us



**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

August 22, 2003

Governing Board
Humboldt Unified School District No. 22
8766 East Highway 69
Prescott Valley, AZ 86314

Members of the Board:

We completed a status review of deficiencies cited in the summary accompanying our December 16, 2002, letter. That summary described the deficiencies cited in the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2001. The District was given 90 days to correct the cited deficiencies. The purpose of our review was to determine whether the District made the corrections necessary to comply with the USFR. Our review, which consisted primarily of inquiries and selective testing of accounting records and control procedures, was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure disclosure of all instances of noncompliance with the USFR.

Subsequent to our status review, we received and reviewed the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2002.

Based on the number and nature of the deficiencies noted in our status review and our review of the 2002 single audit reports and compliance questionnaire, the District still has not complied with the USFR. Within a few days, we will issue a letter notifying the Arizona State Board of Education of the District's continued noncompliance. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls that will adequately comply with the USFR. We have communicated specific details for all deficiencies to management for correction.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this status review report.

Sincerely,

Debra K. Davenport
Auditor General

TABLE OF CONTENTS



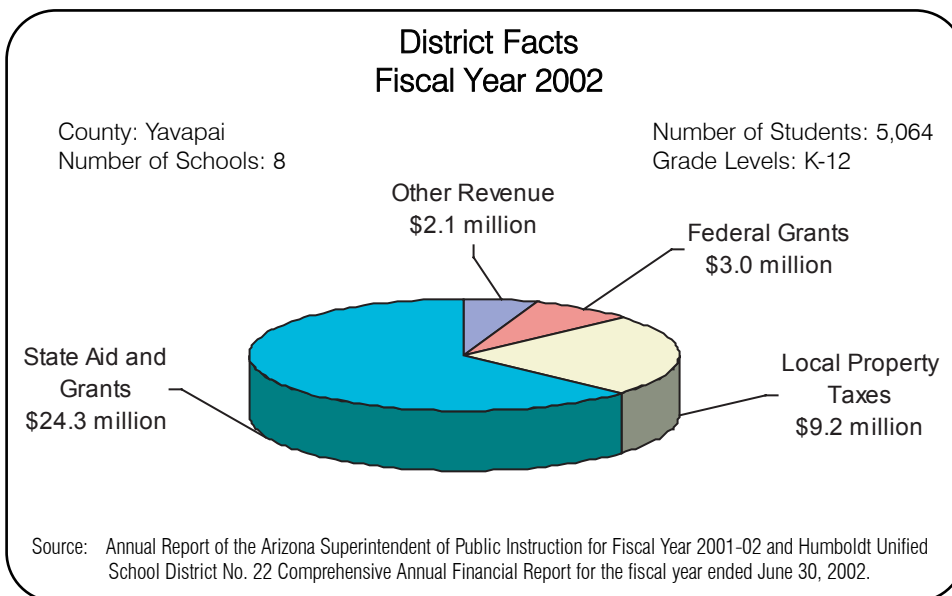
Introduction	1
Recommendation 1: The District must follow competitive purchasing requirements	2
Recommendation 2: The District should establish stronger controls over expenditures	3
Recommendation 3: District accounting records should be reconciled for accuracy	4
Recommendation 4: The District's capital assets list should be accurate and complete	4
Recommendation 5: The District's cash controls over bookstore and athletic event operations should be strengthened	5
Recommendation 6: The District's procedures for processing payroll need improvement	6
Recommendation 7: The District should strengthen controls over student activities monies	7

INTRODUCTION

Humboldt Unified School District No. 22 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to Arizona taxpayers for over \$38.6 million it received in fiscal year 2001-02 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review and review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2002, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship, and to comply with the USFR. Our recommendations are described on the following pages.



In many cases, the District did not comply with School District Procurement Rules and USFR Guidelines when purchasing goods and services.

The District must follow competitive purchasing requirements

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not follow School District Procurement Rules in several cases. For example, it did not obtain competitive sealed bids for a special education equipment purchase or document that there was only one vendor who could supply the equipment.

For other purchases, the District used competitive sealed proposals without determining in writing that using proposals would be more beneficial to the District. In addition, the District did not always retain supporting documentation, such as the competitive sealed proposals or time- and date-stamped envelopes for bids and proposals.

The District obtained written price quotations for the purchase of garbage disposal services, when it should have obtained competitive sealed bids. Further, the District did not always determine whether the total purchase of an item or a collection of items from one vendor would require the use of competitive purchasing. Finally, the District did not follow USFR guidelines, as it did not always obtain oral or written price quotations, when applicable.

Recommendations

To strengthen controls over competitive purchasing, the District should establish and follow the policies and procedures listed below:

- Obtain competitive sealed bids or proposals for construction, materials, or services exceeding \$32,700.
- The District's Governing Board should determine in writing that the use of competitive sealed bids is either not practicable or not advantageous to the District before making purchases using competitive sealed proposals.
- A contract may be awarded for a material, service, or construction item without competition if the District's Governing Board determines in writing that there is only one vendor from which to purchase the item and retains the written determination with other supporting documents. Sole source procurement should be avoided, except when no reasonable alternative vendor exists.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$32,700.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.
- Sole source and emergency procurements and other exceptions.

- Retain all supporting documentation for bids and proposals as required by the School District Procurement Rules.
- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$32,700. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing a quotation. The purchase may be a single item within the price range, or it may be a collection of items that, in the aggregate, are within the price range.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$32,700.

The District should establish stronger controls over expenditures

The District spends tax dollars to purchase goods and services, so it is essential that the District follows procedures that help ensure that these monies are spent appropriately and recorded properly.

However, the District did not ensure that sufficient budget capacity was available before making expenditures, as the District exceeded its Maintenance and Operation (M&O) and Unrestricted Capital Outlay (UCO) Funds' budgets by \$587,960 and \$76,588, respectively, for the year ended June 30, 2002. To reduce the overexpenditures, the District made journal entries that moved expenditures from the M&O and UCO Funds; however, it did not document the expenditures transferred to ensure the expenditures were allowable in the other funds.

The District exceeded its Maintenance and Operation and Unrestricted Capital Outlay Funds' budgets by \$587,960 and \$76,588, respectively, for the year ended June 30, 2002.

In addition, the District did not always record payroll and other expenditures in the correct fiscal year, including Classroom Site Fund payroll expenditures. Also, the District did not always ensure that employees prepared purchase orders before ordering goods and services and did not retain documentation supporting credit card purchases.

Recommendations

To strengthen controls over its expenditures, the District should establish and follow the policies and procedures listed below:

- Verify that sufficient budget capacity is available before approving expenditures.
- Prepare and retain support for all journal entries recorded in the accounting records.

- Post expenditures to the accounting records in the fiscal year goods or services are received.
- Prepare purchase orders before ordering goods or services to document approval for purchases.
- Make sure that credit card purchases are supported by receipts detailing the items purchased.

District accounting records should be reconciled for accuracy

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District must report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that the District's cash balances are reconciled to the County Treasurer's records and that additional state aid and property tax revenues are allocated accurately to the various funds. However, the District did not fully perform these procedures.

The District did not reconcile its records to the County Treasurer's records.

Recommendations

The following procedures can help the District to record and report accurate financial information:

- Reconcile its cash balances by fund to the County Treasurer's records at least monthly and resolve any differences.
- Allocate property tax and additional state aid revenues to the M&O, UCO, Soft Capital Allocation, Adjacent Ways, and Debt Service Funds based on USFR requirements.

The District's capital assets list should be accurate and complete

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to have an accurate list of these assets and to document the values assigned to

The District did not maintain a complete capital assets list.

them. However, the District did not maintain a complete capital assets list, as it did not include all of its land, buildings, and related improvements. Also, the list did not always include the funding source, acquisition method, purchase order number, and voucher number for all of the items, and did not include the cost for any of the land parcels. In addition, the District did not reconcile capital expenditures to items added to the capital assets list, or the current year's capital assets list to the prior year's list to help ensure that the list had been accurately adjusted for items acquired and disposed of.

Recommendations

The following procedures can help the District ensure that its capital assets list is accurate and complete:

- Include land, buildings, and related improvements with unit costs of \$5,000 or more on its capital assets list, including those acquired through capital lease agreements.
- Include all required information on the list. Items should be recorded at actual cost. If the District cannot locate documentation to support the actual cost of assets, it may use estimated historical cost obtained from appraisals, bond issue documents, or governing board meeting minutes.
- Update the list annually for items purchased, disposed of, or transferred to other locations.
- Retain all documentation supporting items added to or removed from the lists.
- Reconcile items added to the capital assets list during the fiscal year to capital expenditures for that year, and make all necessary corrections.
- Reconcile the prior year's list to the current year's list, and make all necessary corrections.

The District's capital assets list should include all equipment, land, buildings, and improvements with a cost of \$5,000 or more.

USFR pages VI-E-2 and 3 and USFR Memorandum No. 196 describe the information that should be recorded on the capital assets list.

Instructions for documenting capital asset cost information are included on USFR pages VI-E-3 through 5.

The District's cash controls over bookstore and athletic event operations should be strengthened

The Auxiliary Operations Fund is used to account for monies collected at the District's bookstores and athletic events. Significant amounts of cash may be collected at these locations. Because of the relatively high risk associated with cash transactions,

the District should have effective internal controls to safeguard cash and ensure that it is promptly and accurately recorded and deposited. These procedures should require district employees to reconcile sales to cash collections and maintain proper documentation to support expenditures. In addition, the District should require that purchase orders be prepared and approved before goods or services are ordered.

However, the District did not always prepare and issue cash receipt forms and did not reconcile sales to cash collections. Further, the District did not always prepare and retain adequate supporting documentation for expenditures. Specifically, purchase orders were not always prepared before goods or services were ordered. Also receiving reports were not always prepared or the purchase order or invoice was used as the receiving report without blocking out the quantities ordered.

Recommendations

The District should adopt policies and procedures that comply with the USFR to account for auxiliary operations cash collections and expenditures. The District should prepare cash collection reports to document sales and the amount of cash that should have been collected, and then reconcile that amount to actual cash collections. If cash receipt forms are used, the forms should be prenumbered and numerically controlled, and employees receiving cash should include all required information on the forms. Also, auxiliary operations expenditures should be supported by a properly approved purchase order, vendor invoice or receipt, and receiving report.

The forms on USFR pages X-G-17 and 22 may be used to document auxiliary operations cash collections and sales.

The District's procedures for processing payroll need improvement

Salaries, wages, and related payroll costs are a major portion of the District's total expenditures. Therefore, it is critical for the District to have strong payroll controls to ensure that employees are paid accurately. However, the District did not have adequate controls over payroll processing since it did not have a delayed payroll system and paid some hourly employees salaries instead of wages due for actual hours worked.

The District paid some hourly employees salaries instead of wages based on hours actually worked.

Recommendations

To help strengthen controls over payroll processing, the District should establish a proper delayed payroll system and pay hourly employees only for the actual number of hours worked.

The District should strengthen controls over student activities monies

Student efforts raise monies that the District then holds for safekeeping. Therefore, the District has a fiduciary duty to ensure that these monies are not misused, lost, or stolen. However, the District did not always retain vendor invoices to support student activities disbursements. When vendor invoices were retained, employees did not always cancel them when paid to prevent subsequent use. Also, receiving reports were not always prepared, or purchase orders were used as receiving reports without omitting the quantities ordered. In addition, student clubs did not reconcile sales to cash collections.

Recommendations

The District should retain vendor invoices to support student activities disbursements and should cancel all supporting documentation when paid to prevent subsequent use. In addition, the District should assign an employee who is not involved in purchasing the duty to receive items, prepare, sign, and date receiving reports that verify the number of items received, and verify that the items are in good condition. If the District uses copies of purchase orders as receiving reports, the quantities ordered should not be shown to ensure that employees actually count the items received.

Finally, student clubs should prepare cash collection forms to document and reconcile cash collections and tickets or items sold. If it is not practical to sell tickets or count items before and after the sale (i.e., car washes, bake sales, etc.), club sponsors should prepare cash collection reports to document cash collected.

Sample forms are available on USFR pages X-H-19 and 21.